Testimony
of
UIL HOLDINGS CORPORATION
Before The
FINANCE, REVENUE AND BONDING COMMITTEE
Re
Raised House Bill No. 7055: An Act Concerning Connecticut First

April 15, 2015

Good afternoon Senator Fonfara, Representative Berger, members of the Finance, Revenue and Bonding Committee. My name is Alan A. Trotta, Director of Wholesale Power Contracts for UIL Holdings Corporation. UIL Holdings Corporation ("UIL" or the "Company") submits these comments on the raised bill referenced above. UIL's comments are focused on Sections 3 and 4 of the bill (lines 229 – 488). Taken together, Sections 3 and 4 promote the development of zero-emissions renewable energy facilities on brownfield and solid waste disposal sites by adding to the small renewables program codified in Sections 16-244r and 16-244s of the general statutes (the "ZREC program"). UIL has two overarching concerns with this bill. First, adding additional funding to the ZREC program creates new financial obligations on the part of electric distribution companies ("EDCs") in the form of long-term contracts that can have an adverse impact on the EDCs' credit and financial capacity. Second, the specific language Sections 3 and 4 of the bill will modify the ZREC program in a way that reduces competition and adversely impacts customers who ultimately pay for the program. These concerns, and UIL's proposed solutions, are detailed below.

I. Cost Recovery and Remuneration

The bill creates additional obligations for EDCs to enter into long-term contracts to provide creditworthy backing for energy projects developed to meet public policy goals (i.e. to utilize the EDCs' balance sheets). The bill, as written, also provides the EDCs with – *at best* – the opportunity to break even on the use of their balance sheets. Rating agencies such as Standard and Poor and Moody's view such obligations unfavorably. However, adverse credit rating impacts can be at least partially avoided through clear, unambiguous cost recovery language in statute. To that end, UIL recommends the adoption of the following consistent cost recovery language:

> *The electric distribution companies' costs associated with complying with this provision shall be recovered through a fully reconciling, non-bypassable rate component.*

While the cost recovery language proposed above helps to mitigate the risk of adverse credit impacts, it does not fully address the inequity that arises from the uncompensated utilization of investor-owned EDC balance sheets. The long-accepted utility business model is to earn a fair rate of return on its assets. Utilizing a utility's balance sheet without compensation creates a liability for the utility without a corresponding asset upon which to earn a reasonable return. Entering into transactions that provide the ability to – *at best* – break even is not a reasonable business proposition from any rational investor's perspective, yet this is exactly the type of obligation that the bills would impose on EDCs. In Massachusetts, lawmakers have long-recognized that the EDCs should be partners in implementing public policy, and in 2008 enacted Section 83 of Chapter 169 which, among other things, provided the Massachusetts EDCs with remuneration for implementing public policy through long-term renewable contracts in addition to recovery of all costs incurred under the contracts. Per Section 83, the remuneration was intended to "compensate the company for accepting the financial obligation of the long-term contract." The current remuneration for long-term contracts in Massachusetts is 2.75% of all contract payments. If Connecticut wishes to pursue public policy objectives by utilizing the balance sheets of investor-owned EDCs, the EDCs should be reasonably compensated.

II. Reduced Competition in the Current ZREC Program

While UIL takes no issue with establishing a preference for brownfield and solid waste sites within the existing ZREC program, the approach proposed in the bill will be disruptive to what is currently a very successful, competitive program. As modified in the bill, the ZREC program would suffer from reduced competition, to the detriment of both businesses in the state seeking to develop on-site renewable energy and to the customers who ultimately pay for the ZREC program. First, lines 371- 373 of the bill state:

> *The Public Utilities Regulatory Authority shall give preference to competitive bidding for resources of more than [one hundred] two hundred fifty kilowatts.*

This proposed change would eliminate competitive bidding for ZREC projects between 100 and 250 kilowatts in size. Competitive bidding in this segment has significantly benefitted customers by driving prices down 44% in two years to a weighted average price of $76.40 per renewable energy credit in United Illuminating's most recent solicitation for ZREC projects in this pricing tier. This price represents a 78% reduction from the original price cap established in CGS 16-144(r). Reducing competition in this way will harm consumers.

Second, lines 377 – 383 of the bill eliminate the well-functioning pricing mechanism for projects 100 kilowatts and smaller. To date, every solicitation for ZREC projects of 100 kilowatts and smaller has been oversubscribed, and project attrition has been low enough to conclude that the incentive, which is derived from competitive bid results in the larger size tier, is adequate.

Third, line 252 changes the definition of long-term contracts for purposes of the ZREC program from "fifteen years" to "fifteen years or more." There is no reason to burden electric customers or EDCs with contracts longer than 15 years. The ZREC program has run out of available funding every year before running out of project bids. This is ample evidence that 15 years is sufficiently long for a contract length.

In addition to these specific issues, the method in which the bill weaves the brownfield incentive into the existing ZREC program is confusing, and may have other unintended consequences in addition to those enumerated above.

III. UIL's Suggested Alternatives

The simplest and best approach to incentivizing the development of small renewable generation at brownfield and solid waste sites would be to simply codify preferential treatment for such sites in the current ZREC program. This can be done as a competitive bid preference for such sites by requiring that their bid prices be evaluated as if they were lower. For example, if a bid preference of 10% is established, a $100 bid for a ZREC project on a qualifying brownfield or solid waste site would be evaluated as if it were $90, thus competing favorably with non-brownfield projects priced between $90 and $100. This approach has already been implemented in the current ZREC program as a bid preference for projects using technologies manufactured, researched and developed in Connecticut. UIL takes no position on what level of bid preference to designate, but would caution against making the bid preference so large that non-brownfield projects are unable to compete.

A second alternative would be to simply "copy and paste" Sections 14-244(r) and 16-244(s) into two new Sections, and create a new program specific to brownfield and solid waste sites that replicates the current ZREC program. This will allow for the brownfield program rules to be tweaked in a manner that best fits those sites, while avoiding unintended adverse impacts on the current ZREC program. To the extent that this alternative is selected, UIL proposes that the cost recovery language and remuneration discussed in (I) above be adopted for the new program.

Thank you. If you have any questions, please contact me at 203-499-3271. You may also contact Carlos Vázquez, UIL's Senior Director of Government Relations at 203-521-2455.